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ABSTRACT

The role of the U.S. government in higher education finance and the ability and willingness of the states to support higher education at past levels are discussed. In the United States, financing is decentralized and pluralistic: federal, state, and local governments--as well as students, alumni, and private enterprise--all contribute. The states, which have the basic responsibility for education, have organized their institutions and finance systems differently. In terms of each state's ability to support higher education, the support for all public services has been eroded by the tax revolt of the late 1970s and by inflation. In addition to enrollment declines, there are other reasons why higher education may face reduced state revenues, including the belief of some legislators that many students can afford to pay more for their education and the fact that institutional budgets are not specified by statute. Four phases of federal activity since World War II illustrate how incentives have changed for institutions: (1) benefits for GI's, 1946-1957; (2) the reaction to Sputnik, 1958-1966; (3) access and civil rights, 1967-1980; and (4) and the new federalism under President Reagan, 1981-. The size of federal aid influences the state's design of its finance system. (SW)

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GOVERNMENT FINANCE OF HIGHER EDUCATION IN THE UNITED STATES OF AMERICA IN THE 1980S: SOME PREDICTIONS AND PERSPECTIVES

by
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"The press paid little attention to universities fifty years ago," writes Chicago professor Edward Shils, "and this is one of the reasons why universities gave an impression of quiet and gravity."[1] Today, this is not so: the media lavishes attention on higher education (not all of it favorable), and most universities appear neither quiet nor grave.

Shils rightly suggests that the widespread interest in higher education is recent. Its ascendance began with the American GI's who returned from the second World War and attended college with the aid of federal grants. Then, under policies called "cautious egalitarianism" by Lewis Mayhew,[2] the colleges welcomed thousands of students during the 1950s and 1960s would not have aspired to higher education in earlier times. During the 1960s, the post-war "Baby Boom" reached the colleges and swelled their student bodies enormously. Much of this growth, of course, was also fostered by our confrontation with Russia and by the practical demands of a technological society.

Although the 1970s lacked the exuberance of earlier decades, the times for higher education were generally good. The number of institutions increased by 11 percent and full-time-equivalent enrollment by 24 percent. Nationwide, real expenditures for instruction (dollars adjusted for enrollment growth and inflation) increased by 3.1 percent during the 1970s. As the decade closed, higher education was prominent in America, if, for no other reason, than its size: the expenditures of all colleges and universities represented 2.1 percent of the U.S. Gross National Product.[3]

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Two facts are most important in understanding the finance system for higher education institutions. First, their financing is decentralized and pluralistic: Federal, state, and local governments--as well as students, alumni, and private enterprise--all contribute. Under the U.S. Constitution, however, the fundamental responsibility for education rests with the 50 states, and they collectively provide 40 percent of the Education and General Revenues for all colleges and universities, and almost 60 percent of the revenues for public institutions.[4] The states have organized their institutions and their finance systems quite differently--partly because of their varied histories, partly to accord with unique budgetary practices, and partly because of different political priorities. For fiscal support, the federal government has been at times generous, if quixotic.

Second, most states have generally assigned a high priority to higher education, both in terms of support for public institutions and aid for private colleges to promote diversity, competition, and student choice. But, within this support, expansion of the enterprise has usually been the prime value. State officials were attracted to expansion as a means to promote social mobility and more career education while the institutions welcomed growth to enhance their prestige and generate more dollars.

Thus we have entered the 1980s. How will higher education fare in its fiscal relations with government during this decade? To answer this, I shall draw from my general perspective as a policy analyst for the State of California. First, we must consider whether the states will have the ability and willingness to continue past levels of support for higher education without the expansion of the past 30 years. Then, we shall review the fiscal relations between the U.S. government and the institutions of higher education in hopes of understanding the changes that will make the 1980s different.

The Ability and Willingness to Support Higher Education: The dollars provided to higher education by the states reflect each state's ability and willingness, expressed through the political process, to support its institutions. Therefore, it is appropriate to ask, will the states have the ability, and will they be willing, to continue support for higher education at past levels?

In terms of each state's ability, the support for all public services has been eroded by the "tax revolt" of the late 1970s and by the dismal performance of the American economy, besieged by high interest rates and continuing recession, which has shrunk the resources from which tax revenues are drawn. Some 16 of the states experienced a real spending decline between 1980 and 1982, and

revenues fell below forecasts in 21 of them during 1981. Year-end balances in all the states declined from 9 percent of current expenditures in 1979-80 to 1.5 percent in 1981-82, as they struggled to continue services by spending reserves.[5] In a recent survey, only 14 states responded that they had neither experienced nor anticipated any revenue shortfall.[6]

It is not suprising, then, that inflation adjusted revenues per student at public colleges and universities fell 1.9 percent between 1979 and 1980, and preliminary data indicates an even steeper decline in later years.[7] But, can we expect a return to the earlier years of growth after the recession? Realistically, no. The basic weaknesses in our economy--inflationary expectations, lagging productivity, structural unemployment, under-investment in capital goods, high interest rates, and energy dependence--will endure for years and will likely forestall any sustained prosperity. It is doubtful that any public services will keep pace with demand and inflation in the 1980s.

On the other hand, the passions behind the "tax revolt" appear to have subsided in favor of a "services revolt" as states have pared back institutions, such as higher education, which cater primarily to the middle class. In 1980, only two of the ten major "tax revolt" propositions were passed by voters, and a poll conducted in May 1981 showed that only 33 percent of Westerners sampled felt that their property taxes were too high, down from 74 percent in 1978.[8]

At the same time that public opinion was changing on tax issues, many state governments--especially those in the Northeast, the Midwest, and the timber regions of the Pacific Coast--were being bludgeoned by the economy into budget reductions unprecedented since the Great Depression. In Pennsylvania, state-related colleges and universities received a 10 percent cut, and the State of Washington reduced its 1980-81 salary appropriations by 10.1 percent.[9]

Despite the clamor of taxpayers, few politicians can stand long against the organized dissatisfaction of constituents directly affected by these large reductions. As a result of the pressure not to reduce services, tax increases are the order in many states: 26 of the 50 legislatures were considering increases of $6.8 billion early in 1982, following a year in which tax increases set a 10-year high.[10] Without economic recovery, however, such increases are temporary expedients, and will serve only to forestall additional cuts.

In terms of each state's willingness to support higher education at past levels, some pessimism is realistic. We know that the number of 18-year olds in the United States peaked in 1979 and will decline

by 1.1 million, or by 26 percent by 1992. Moreover, the number of 18- to 24-year olds (60 percent of whom attend institutions of higher education) will decline by 23.3 percent by 1997. The Carnegie Council on Higher Education, the nation's most prestigious research organization in the field, has published enrollment projections which take into account numerous demographic factors, including decreases in participation rates by males and increases in enrollments by Blacks. Following several hypotheses, the Council concludes that undergraduate enrollments nationwide will decline between 5 and 10 percent during the next two decades. Of course, the aggregate decline hides the potential of substantial variations among the states, ranging from regional declines of more than 10 percent in the East to increases of 10 percent in some southern and western states.[11]

For institutions facing enrollment declines, the problem is clear: fewer students usually mean fewer state dollars under enrollment-sensitive formulas. For institutions with increasing enrollments another troublesome problem is posed: state appropriations are strongly influenced by fluctuations in the economy so that fewer funds are available during periods when high unemployment encourages higher enrollments. Ironically, educational institutions can suffer with greater or fewer numbers of students.

Beyond demographics, there are other grounds for doubting that higher education can secure its past share of state revenues. First, many legislators believe that, unlike citizens served by most state agencies, many students can afford to pay more for their education. So, tuition increases are used routinely to lower appropriations. Second, the final budgets for most institutions of higher education are not specified by statute; increases are negotiated annually or bi-ennially in the budget bill. Thus, it is easier to lower these negotiated amounts than to amend statutory adjustments or to postpone obligations such as retirement funding. Finally, salaries represent about 80 percent of institutional budgets. In most states, decisions on salary cost-of-living adjustments come late in the budget process when revenues and prior commitments are known. Salary increases are often used "to balance the budget," so that agencies, such as schools, where salaries are a major proportion of their budgets, suffer during years of stringency.

Several surveys confirm this impression that states are unlikely to continue past support levels. A poll of state policy leaders in higher education, conducted by the Education Commission of the States, found that 72 percent expect higher education funding to lag behind inflation. Of those 72 percent, 94 percent expect this to result in tuition increases, 71 percent anticipate deferring maintenance, 71 percent anticipate reducing staff, and 60 percent predict lower expenditures for capital outlay.[12]

Another questionnaire polled dozens of chief executives concerning their institution's finances. A few impressions are instructive here. Those in the best shape, according to their presidents, were the private universities and the selective liberal arts colleges. Presidents of public and private research and Ph.D. granting universities were by far the most optimistic, while two-year college presidents, who are more dependent on taxes for their income, were the least optimistic. Overall, the presidents of all public institutions were more pessimistic than their counterparts in the private sector, with other half of the former reporting that they were now "losing ground" and 21 percent believing they would continue to do so.[13] It seems reasonable to assume that one cause for their pessimism is the traditional reliance of public institutions on state appropriations.

The Role of the U.S. Government in Higher Education Finance: The federal government has been generous to higher education. In fiscal 1981, over $12 billion (or about one-sixth of their total support) flowed to postsecondary institutions, about half for student assistance and half for research and institutional support, primarily from the Department of Defense. However, the federal government has enjoyed the luxury of periodic intervention to promote what Washington officials perceive as "the national interest." They have generally refused to shoulder any continuing responsibility for the basic operations of postsecondary institutions. Instead, the federal government has played the role of a "rich uncle" in relating to the institutions, bestowing much largesse in specific areas. This has been unfortunate, not because the federal policies were necessarily wrong, but because they have often been short-lived and inconsistent. Often, the states, with a more limited tax base, have been left to carry on initiatives abandoned by the national government.

Let me provide some specifics. Four phases of federal activity since World War II can be identified that suggest how incentives have changed for the institutions.

I. Benefits for GI's, 1946-1957

Federal policy was to provide funds for the education of veterans and to promote their integration into the American economy. Weapons research in universities continued, though on a smaller scale than during the War.

II. The Reaction to Sputnik, 1958-1966

Federal policy changed to a balance between institutional aid, primarily in the form of research

contracts and construction grants, and with scholarships to encourage students to enroll in certain fields, especially in graduate school and the health sciences.

III. Access and Civil Rights, 1967-1980

Federal policy under President Lyndon Johnson turned toward aggressive enforcement of civil rights and later to affirmative action for women and members of racial and ethic minorities. In 1972, Congress itself embarked on a new direction: massive amounts of financial aid to needy students and less emphasis on institutional support. In 1978, the grants for financial aid were extended to the middle class and low-interest loans to everyone.

IV. The New Federalism, 1981-

Federal policy under President Ronald Reagan is to provide student aid only to the neediest students and to restrict the federal role in higher education to research and information gathering. There is less emphasis on opportunities for members of minority groups or the handicapped and on affirmative action.

These shifts in policy have profoundly influenced the institutions. The size of the federal presence means that most states design their finance systems based on these federal funds and their priorities. Then, if the federal government pulls back, the states and their institutions are left with difficult choices. Two examples are most dramatic.

During the early 1970s, the federal government provided sizeable "capitation grants" to medical schools for additional enrollments in the health sciences. After ten years, these grants have been eliminated, ostensibly because the nation no longer suffers from shortages in the health professions. However, the states are faced with the unenviable option of replacing federal funds in these expensive programs or cutting back the number of health science students, a politically unpopular alternative.

Likewise, enormous amounts of student financial aid during the 1970s caused state officials to worry less about increasing tuition than they would have otherwise. If President Reagan is successful in reducing financial aid substantially, the states will not be able to increase their own aid programs sufficiently nor, realistically, can they lower tuition. The result will be less access

for large numbers of students oriented toward postsecondary education in part by past federal policy.

This leverage of incentives, wielded by the federal goverment over the affairs of states and institutions, is impressive indeed.

Conclusion: Despite these imposing difficulties, I am not predicting the demise of higher education as a major American institution. Indeed, the enterprise has shown itself remarkably tenacious and resilient. My major concern is that the institutions are particularly vulnerable:

a. to declines in the states' ability to finance public services;

b. to the possible reluctance of states to continue past levels of support; and

c. to changes in federal policies.

As a counterpoint to these trends, however, is the urgent need for people who understand our world and can cope with technological change--higher education can surely play a role here. Further, the economic challenges posed abroad are not lost on public officials. "To insure our positive competitive position," Governor Lamm of Colorado told the Legislature, "we are going to have to place new reliance and responsibility on higher education. As a nation, we are not going to remain competitive if Japan continues to graduate more scientists and more engineers and more technicians than we do."[14] The stage is set for a challenging decade.

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